Mr. Henry C. Alexander
Chairman of the Board
J. P. Morgan & Co., Inc.
23 Wall Street
New York 8, New York

Dear Henry:

Many thanks for sending me the copy of your address at the Luncheon Meeting of the Bond Club last Friday. I read it with a great deal of interest.

It was certainly good to see you, 'though all too briefly, at the Business Advisory Council Meeting ~~at Hot Springs~~ the other day. I wish we could have had a longer time for a good talk.

With best wishes.

Faithfully,

Allen W. Dulles
Director

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FOR RELEASE AT 1.00 P. M. (EDT) FRIDAY, MAY 16, 1958

TEXT OF ADDRESS BY HENRY C. ALEXANDER
CHAIRMAN, J. P. MORGAN & CO. INCORPORATED
AT A LUNCHEON MEETING OF THE BOND CLUB OF NEW YORK
BANKERS CLUB, NEW YORK, FRIDAY, MAY 16, 1958

Mr. Chairman, distinguished guests, gentlemen of the Bond Club of New York:

It is exciting yet frightening to rise to speak to so many friends and neighbors. Your friendship gives me warmth, but your sophistication warns me to keep cool and cautious. I can almost see the slide rules and yield books that bulge your pockets. I know that I am engaging in quite a venture here - far beyond the limits of prudence ordinarily observed by a commercial banker. And when I think of your expertness and wisdom in finance, I am not surprised that no New York commercial banker has dared appear before you in nearly 20 years, and no one from J. P. Morgan & Co. has done so in nearly 40 years! Of course, we could claim that we learn what not to do a little quicker at Morgan's than at other banks - 20 years quicker would seem to be a respectable lead time. On the other hand, ventures - old and new - have always been the principal product of Morgan's. So here I am to venture.

This occasion has, for me, other historical values. Twenty-five years ago today, lacking one month, a fateful law was signed and entered upon the books. It was a bill of divorcement, with profound impact on family life in Wall Street - the Banking Act of 1933. Some said it was intended to separate the sheep from the goats - or the men from the boys. I remember hearing one commercial banker say it would separate the work from the profits. In all events and regardless of how awful it was, I believe we finally have come to terms with that law. When your president, Sumner Emerson, a Morgan Stanley partner, no doubt acting with the advice of counsel, feels free to ask the Chairman of J. P. Morgan & Co. to lunch in the same room with him, in front of several hundred witnesses, then I know we have reached the end of an era and have learned to live with the Banking Act of 1933.

One thing the Act didn't do was to prohibit commercial bankers from being members of the Bond Club. Thus J. P. Morgan & Co. has been able to continue the membership it began when the Club was founded. In recent times we were proud to see Dave McElroy serving on the Board of Governors for several years; and needless to say, I have counted it a privilege and an honor to serve these past two years on the Club's Advisory Council. From that lofty level I make no report on the Club's affairs, for the by-laws of the Club provide that the Advisory Council shall have nothing whatsoever to do with the Club's affairs.

Coming now to this day and this moment, it has been difficult for me to select a subject for a speech before this audience - so wise, so expert. I had thought I might speak on horse-racing, or Hollywood, or agriculture, or youth delinquency, or some other subject that my audience presumably wouldn't know anything about. My trouble was that I didn't know anything about those subjects either. So I am forced, I fear, to come to common ground between us and talk a little about the state of business today. But first I would like to sketch, in a few broad strokes, the greater problem of which the present business recession is an urgent part.

Peace and prosperity have always been the primary aims of the American people. But these aims have never seemed to be fully realized. They are never secure and certain. Always they threaten to move away from our firm grasp. When my late partner, Mr. Thomas W. Lamont, addressed the Bond Club in 1919, he had just returned from participating in the Paris Peace Conference after the First World War. He spoke briefly about the problem of restoration in war-torn Europe, he emphasized the need for training and educating young men to handle the great tasks that lay ahead both at home and abroad, and then he spoke of America's opportunity to serve the world and thereby best serve our own land in its search for peace and prosperity. He closed his remarks in these words:

> ". . .America must be first in generous thought and in action; first in the confidence which she shows to her fellow-nations; first in the heart of all the world, by reason of her friendliness and helpfulness to the world."

America tried to be friendly and helpful. She was generous in thought and in action. But, none the less, the wounds of war festered rather than healed, a great depression came, Hitler rose, a second World War was fought. Then followed twelve years of great prosperity, but no real peace. The cold war was interrupted only by the outbreak of hot wars - in Korea and elsewhere. The boom was interrupted by two minor recessions, and each time came back stronger than before. Now we have had the shock of a Russian Sputnik, and in our economy we are faced with a new recession. We are still trying to be friendly and helpful. We have won some friends, but not enough to make us feel secure. We are not first in the heart of all the world. We have been generous in thought and action, but still much of the world remains uncommitted and some of the committed seem inclined to become uncommitted.

In today's world the winning of friends has become a competitive business. We are just beginning to realize the measure of our competitors. We find ourselves rivalled by the Soviets in military power, in brain power, and in economic growth. Now we see them in the fuller light of their material achievements, wearing the Khrushchev smile of confidence. We always knew they could outnumber us, outpromise us, and outbrag us. Now we realize we shall have to work hard to keep them from outarming us, out-thinking us and outproducing us.

We are making a reappraisal, and none too soon. It is inconvenient, even agonizing, and for a certainty it will be expensive. If uneasy, uncompromising rivalry is the only way the Communists will have it with us, then for our own survival, we have no choice but to match their challenge. How shall we do it?

I would not undertake to write a full prescription, but some things seem to me to be essential.

First, for security and for confidence at home and abroad, we must keep our military power at unrivalled strength and in total readiness. This we should leave largely to our military experts and governmental leaders. Too many others are trying to undertake the job. Most of us must content ourselves with helping to pay the cost.

Next, we must hold our allies and win new ones. This can't be done with military programs alone. We shall have to outdo the Russians in their mounting campaign of economic warfare. They are getting tougher to beat on this front, and right now it is the field where they're pressing the battle hardest. The Russian system has some definite advantages in the short-term tactics of economic warfare, but in the long run its effectiveness must be dulled by the lengthy record of broken promises and the political strings with which the Soviet wraps every economic package.

Our sharpest weapon on this front is an increased flow of trade and investment among the friendly and uncommitted nations of the world. We can't afford to surrender the initiative in trade. We shouldn't expect - and shouldn't hope - to preclude the Russians from all trade with the non-Communist world, but we must not let that world become so dependent upon Russian materials and markets as to be subject to Russian domination. Economic dependence means political dependence. To use our trade weapon effectively, we must work to ease trade barriers, including our own, and must contend everywhere against needless controls, quotas, subsidies, defaults, confiscations - ugly heads that snap higher and higher with each nationalistic goose step. No, let's not engage in economic warfare with our friends and allies. The Russians will be enough of a foe.

There is at least one more urgent requirement that the grave world situation imposes on us. It is the curing of our economic recession at the earliest possible moment. Recession is a bad thing, and bad for our world strategy. The present one has high significance in the cold war and in our national defense. If it should worsen, and become prolonged, and spread to the economies of our Western allies and the rest of the free world, we could lose the cold war without firing a shot. The world would believe, as Communism always has said, that capitalism carries within it the seeds of its own destruction. We must see the recession in the framework of our world struggle. In other circumstances it would be urgent, but less urgent than it is now.

Nor can we look only at the present degree of recession. The current slump is more severe than the two previous ones since World War II, but not so bad as that of 1937-38, and certainly it bears little resemblance to that of the early '30's. What we must not do in this recession, however, is gamble with the possibility of its becoming worse. Too much is at stake; we can't take chances.

The recession is the result of the excesses of the boom - as all recessions are the result of all booms. Some said there was no boom - just normal American growth with its built-in stabilizers. The truth of the matter is there was a boom - a big boom. It was a war boom and a post-war boom that lasted for seventeen years. That is a long life for any boom. The deep roots of the twelve year post-war boom were the almost insatiable demand for civilian goods, buildings and services that followed the austerity of ten years of depression and five years of war, and the immense supply of money created to finance the war and to peg war bonds at par after the war.

Consumers bought and bought, borrowed and borrowed; eventually they over-bought and overborrowed. There was intense competition to supply the long-deferred civilian wants, made effective by plenty of money and credit, and everywhere business and industry built and built, and finally overbuilt. Excesses occurred in all parts of the economy, as we hurried to use up in advance the prosperity of the next year and perhaps the year after. "Boom now, pay later" became our slogan, and now we are

paying with the inevitable letdown that comes after a spree.

The culminating excesses, the ones that marked the end of the boom, came in the capital expenditures field. We will have to go through a catching-up period before we can expect a strong resurgence of capital outlays. Thus we cannot look to this part of the economy for a quick lift to get us out of the recession. It was the "pep pill" of the economy during 1956 and part of 1957, but now that phase is past.

Where shall we look for a force to stop the downtrend and start us toward new growth - on a steady, sustainable basis, not one of frenzied boom? Many people, as might be expected, are looking to Washington or some state capital, asking that it spend more, or subsidize more, or protect or regulate more. There is hardly a sector of business that is not at government's door these days making a howl about something. Many are saying, "Please lay off us with regulation or other interference," or "Please lay on our competitors as you do on us," or "For Heaven's sake, give us regulation, or subsidy, or protection such as our competitors already enjoy." No wonder our legislators are confused and confounded. I am surprised that they do as well as they do.

The distressing thing about so many of the recession cures being proposed is that they represent more artificiality, more government, more subsidy, more special consideration for this group or that. While some real emergencies may have already developed - that may require special help - too many are using the recession to justify more government activity in one field or another.

The helpful course for government to take at this time lies in the opposite direction. Not more participation in the economy, but less. The best anti-recession move for government would be to lessen the tax burden - an across-the-board remission of income taxes, both personal and corporate, in such percentage as will give material encouragement to all private sectors of the economy. As things now stand, I believe we should lessen - by say, five billion dollars, or perhaps more - the drain of taxes upon incomes this year. We should do it simply and speedily - the same percentage to apply to all taxpayers, whether individuals or companies. Thus the unleashing of economic power would find its way into all lines - consumer goods, autos, housing, plant modernization.

I urge this move plainly and simply as medicine for the economy. The dose is not intended to be habit-forming. The patient must realize that as soon as he is well he goes off the prescription.

The action proposed must not be encumbered with time-consuming debate over tax reform. Much as reform is needed, it will have to wait for more leisurely treatment. Nor is there room for any social-objective riders to be attached.

The course I have outlined is, I believe, the course of prudence in today's circumstances. Our economy is as much a weapon in the struggle for survival as are our rockets and our missiles. We can't afford a long slump in business. Negative forces feed upon themselves and extend themselves. The recession might cure itself if left alone, but it might not, and to rock along and gamble that it will do so would be taking more of a chance than we should.

In stressing tax relief, I do not overlook the role of monetary policy in countering the recession. Continued action by the Federal Reserve is needed to keep the money climate one of availability. This is a good time to make further progress in bringing reserve requirements down to realistic levels. The objective should not be, however, a money market sloppy with ease. Monetary ease is only the climate for recovery. It doesn't in itself provide the motive power for an upturn. Carried beyond reason, it merely results in loose credit, loosely extended. To spark an upturn, some additional, vitalizing force is needed. It is to supply such a force that I propose tax remission.

I make this recommendation regarding taxes knowing that it puts me in opposition to a great many people with whom, more often than not, I agree on economic matters. Likewise it seems to put me in accord with quite a few with whom, more often than not, I disagree. I don't think either fact requires apology. Actually, a tax remission isn't such a wild thing to do. We have done it before.

Most of the opposition is based, I think, on the contention that a tax cut would be inflationary because it would increase the budget deficit. Now I do not yield to any man in my dread of inflation, nor in my conviction that it is the number-one long-term economic problem for this country. But there are short-term problems as well as long-term ones, and the immediate problem right now is not inflation, but deflation. Too many people are fighting the wrong battle today - they have the guns trained on inflation while the enemy is in the other direction. Even from the long-range viewpoint, the greatest danger of inflation lies in the drastic measures to which we will be forced if the present recession degenerates into a depression and mass unemployment results. Inflation is the product of depression, or of war, or of monetary nonsense. If we avoid these, we will avoid inflation.

I do not minimize the seriousness of budget deficits. Too much deficit, too often, is itself monetary nonsense. We must make it clear that we are firmly determined to return to a balanced budget, to avoid chronic inflation, and to defend the value of the dollar.

One of the worst causes of deficits, however, is a depression, which shrinks incomes and therefore shrinks tax receipts. A tax remission which stimulates recovery may generate enough additional taxable income to offset the lower rate. We must remember - the government cannot spend tax rates; it can only spend tax revenues. If you're going to milk a cow, you have to feed her.

Some of the opposition to tax relief stems, I believe, from a feeling that the sins of the boom must be expiated, and that the only way to do it is by sweating out the slump, by suffering a little. It's the old Spartan determination to show that we can take it, coupled perhaps with a belief that we'll be better off for the experience.

It's true that recessions prompt businesses to make needed adjustments, to tighten up their efficiency. It is also true that the economy would fare much better if these adjustments were made during good times rather than bad. The cumulation of adjustments, when everyone is making them at the same time, tends to deepen and prolong a recession rather than cure it. Let's make adjustments where needed, but let's not keep the recession going just to provide the proper background music for them, and in the future let's not wait for slow times to put the house in order.

No recession cure is all we would like it to be. None is entirely free from undesirable side-effects. But, when we consider the alternatives - selective tax cuts; massive, slow-starting public works; subsidies, tariffs and quotas - when we consider all the proposals being made, an across-the-board easing of the tax load is the most consistent with the principles of a free economy. It gives a push to private spending and private investment, rather than intruding the hand of government further into men's affairs.

In brief, then, Mr. Chairman, the present state of business gives us concern, not alone for what it is but, even more, for what it may become if we don't take action while moderate measures still have a good chance of success.

Analyzing a basketful of statistical indicators, cliff-hanging from one unemployment figure to the next, clutching at shreds of good news - or bad - and stretching them to fit preconceived forecasts - these things do not cure a recession.

No, we must fight deflation, as we must fight inflation, and in doing so we must learn not to expect perfection, though we must always vigorously seek it. We should remember that an uninterrupted rise in prices, wages, profits, production and employment is not a law of nature, and that inevitably there will be some ups and downs. Our job is to moderate the ups and downs, and I am confident that, if we apply good anti-recession medicine to our present ills and if we stop crying for the moon and content ourselves with a good level of business and a good level of employment, we shall achieve them before long.

And, finally, with this accomplished, with adequate military power well coordinated and well maintained, and with strong and friendly allies by our side, we can stop our shivering and once more move forward with confidence in the direction of a more certain peace and a more secure prosperity.

Thank you.

(END OF TEXT FOR RELEASE AT 1:00 P.M. (EDT), FRIDAY, MAY 16, 1958)

HENRY C. ALEXANDER

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